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## China, People's Republic of

### Market Development Reports

### Hangzhou: A Growing Market in a Fertile Land

### 2007

**Approved by:**

Wayne Batwin  
U.S. Consulate

**Prepared by:**

Bryan Stewart, updated by Katherine Hanson and Sarah Wegmueller

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**Report Highlights:**

Hangzhou is at the cutting edge of economic growth and has been ranked as "Mainland China's Best Commercial City" for three consecutive years. The city is ideally located near Shanghai and nestled in the Yangtze River Delta, providing opportunities for international trade as well as market development further inland. The World Bank has listed Hangzhou as one of six "Golden Cities" for outstanding investment environment in China.

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## Introduction: The cutting edge of commercialism

Hangzhou is the capital of Zhejiang province and lies just 150 kilometers south of Shanghai. It is an ancient city that has enjoyed economic prosperity and growth for centuries. Hangzhou's good fortune is due largely to its strategic location in the heart of the Yangtze River Delta, near the port city of Shanghai.

The modern city of Hangzhou is bustling with a booming tourism industry, and residents and travelers alike enjoy ideal living conditions. As business flourishes in Hangzhou, the city has earned a reputation as a center for information technology, software development, and telecommunications equipment.

Hangzhou at a Glance	
Population	6.6 million (Hangzhou City) 49.8 million (Zhejiang Province)
GDP	\$44 billion
GDP Per Capita	\$3600
Average GDP Growth Rate, 2005-2006	14.3%
Major Industries	Textile, silk, electronics, food processing, information technology
Key Agricultural Products	Silk, tea, flowers, fruit
U.S. Exports to Zhejiang, 2006	\$3 billion (12% increase from 2005)

Source: ATO Shanghai

Zhejiang province is one of the wealthiest in all of China, and its GDP per capita is ranked second only to Shanghai in the region.

## Background: Blessed by Geography and History

A warm, subtropical climate, bountiful green hills, and a tranquil lake allure tourism and business to Hangzhou. Within the city limits, numerous parks invite peaceful reflection amidst the excitement of a metropolitan city. The West Lake is famous throughout China, and draws countless visitors year-round. Although Hangzhou's economic prosperity creates a fast-paced, competitive business environment, the city has a relaxed, high quality standard of living.



Just 150 kilometers southwest of Shanghai, Hangzhou is a prime location for business opportunity.

When Marco Polo visited Hangzhou, he declared the city "beyond dispute the finest and the noblest in the world". At that point historians calculate that Hangzhou had over 1 million people and was the most populous city in the world. Hangzhou is one of the seven ancient capitals of China and is well-known for its Longjing (Dragon's Well) green tea. Silk has been central to the Hangzhou economy for centuries as well; the city originally was chosen as the eastern post of the ancient Silk Road. Centuries later, Hangzhou became the southern terminus of the Beijing-Hangzhou Grand Canal used today, supplying northern China with rice and vegetables.

The famous West Lake



As noted earlier, the key to the city's economic growth is its central location in the Yangtze River Delta (YRD). The YRD has emerged as one of China's two economic powerhouses (alongside the Pearl River Delta in Guangzhou), and accounts for some 25% of China's total GDP. At the center of the YRD lies Shanghai, boasting one of the best-developed logistics and distribution networks in the country. Hangzhou is linked to Shanghai and the other cities of the YRD by a modern network of expressways and railways. Travel time to Shanghai

is roughly two hours either by road or rail, and many products imported to Hangzhou are shipped through Shanghai. Hangzhou's Xiaoshan International Airport serves regional hubs throughout East Asia, while nearby Shanghai Pudong International Airport receives flights from across the globe.

### A Modern Marketplace

In 2006, 53 Hangzhou-based companies made the list of China's top 500 companies. And no wonder: with lower real estate prices and less traffic congestion than Shanghai, as well as a healthy balance of private capital and foreign direct investment, Hangzhou is an ideal location for business. Originally famous for silk, textiles still play an important role of Hangzhou's industry. The city is becoming an increasingly popular tourist destination, however, with tourism revenues reaching \$7.2 billion in 2006. Higher education is central to the economy: Zhejiang University (one of China's largest universities), among others, continually feeds the local economy with a pool of new graduates. Dubbed a "Mecca for IT Firms", Hangzhou is fast becoming an information technology and software development hub.

Although Hangzhou, along with the rest of the YRD, is heavily urbanized, it has a long history of agricultural production. The most famous products to come from this region are silk and the acclaimed Longjing green tea. These industries are still present, though the Longjing tea in particular has suffered heavily from competition from low-priced counterfeits. In volume, the major agricultural products of the Hangzhou area include rice (6.9 MMT in 2004), sugar (1.06 MMT), pork (217 TMT) and aquaculture (140 TMT). Note, however, that Zhejiang is not a major center for sugar refining: rather, much of the cane grown in this area is used in cooking the traditionally sweet local cuisine.

Hangzhou cuisine is recognized as one of the eight major Chinese cuisines. It is renowned for its fresh and pure ingredients, and is often characterized as having light and natural flavors. Although sweet, it is lighter and less oily than the cuisine of nearby Shanghai, and much less so than that of Suzhou. Chicken, fish, shrimp and green vegetables are the most favored ingredients, but dishes include a wide range of different flavors, and chefs are always ready to innovate. Famous dishes include Beggar's Chicken, West Lake Carp (in a sweet-and-sour sauce), Longjing Shrimp, Dongpo Pork, and Stewed Duck.



Longjing green tea, Hangzhou's most famous product

## Sector Analysis

### Hotel, Restaurant and Institutional (HRI):

There are over 9,700 licensed restaurants, more than 300 cafes, and countless unlicensed eateries in the city. In addition, there are hundreds of bars and nightclubs throughout the city that feature imported drinks and snacks. The restaurant industry is extremely sophisticated; however, it lacks a strong selection of international cuisines. Because of the city's fame as a center for cuisine, most visitors are interested in sampling local dishes. Only a handful of restaurants in the city have truly international menus. As a result, the best strategy for promoting food imports is through local dishes, emphasizing both the high quality and new possibilities that such imports provide. Still, among local residents, American-style fast food is becoming increasingly popular and has created a strong market for certain imported products such as frozen potato products and corn on the cob.

The hotel industry represents the cutting edge of cuisine in Hangzhou, and innovations pursued by hoteliers are often imitated by local competitors. In 2006 there were 241 hotels with a star-level rating in the city, including ten 5-star hotels. As the hotel industry grows, the demand for high quality imports grows as well, particularly meats, wine, beer, spirits, cheese, pastries, baking ingredients, butter, specialty oils, coffee, jams and condiments.

### Retail:

Hypermarkets, supermarkets and convenience stores are shooting up everywhere in Hangzhou. Retailers rely heavily on new stores to fuel sales growth; in fact, one hypermarket manager described sales for old stores as relatively flat. A Wal-Mart was built in Hangzhou in October 2004, and two more were constructed soon thereafter. Upon Wal-Mart's arrival, the world's largest food retail chains are now all represented in Hangzhou, targeting mid-market Chinese consumers.

Major Hypermarkets and Supermarkets in Hangzhou	
Carrefour	1
Metro Cash and Carry	1
Lotus	1
Auchan	1
Wal-Mart	3
Hymall	4
Century Lianhua	Several dozen
Trustmart	4
Wumei	2

Source: ATO Shanghai research

Domestically-owned supermarkets in Hangzhou underwent considerable consolidation in 2004 and 2005 in order to better compete with larger markets. Chinese-owned supermarkets are typically smaller than their western counterparts, often functioning as localized, corner grocery stores.



Hangzhou maintains a traditional appearance on this pedestrian mall

## Prospects

Although Hangzhou is a prosperous and wealthy city, its imported foods market remains underdeveloped compared to Shanghai's. This budding growth, combined with the explosive growth in the international hotel industry in Hangzhou, bodes extremely well for future import opportunities. Exporters who have already established themselves in Shanghai will find in Hangzhou a particularly favorable market, as it shares both tastes and distribution networks with Shanghai.

At the retail level, the standard assortment of U.S. nuts, dried fruit, and frozen corn that are common in Shanghai is also widely available in Hangzhou. However, experience has led ATO/Shanghai to believe that the retail food market for imports in this city is underserved. In an ATO-organized nationwide retail promotion involving 24 Carrefour stores, the Hangzhou store ranked 7<sup>th</sup> in sales: ahead of Guangzhou and following stores only in Shanghai (four stores) and Beijing (two stores). In addition, the Hangzhou store was extremely aggressive to recruit distributors and products for the event, and ultimately carried far more items than originally agreed.

ATO/Shanghai has conducted both retail- and Hotel Restaurant Institutions (HRI)-focused activities in Hangzhou in the past few years. In HRI, the products with the best growth potential include meat, seafood, wine, condiments, and coffee. Top hotels have expressed a strong interest in broadening their menus to include the best imported ingredients, understanding that a top-notch and innovative menu is far more important to their customer base than price. Zhejiang province is also home to one of the most active provincial chef associations in China, and ATO/Shanghai has worked closely with the Zhejiang Chef Association to recruit and train elite chefs in the handling and preparation of U.S. food ingredients.

Although demand for international dishes is growing quickly and prospects look good for continued growth, international cuisine represents only a very small fraction of the prepared foods market. To achieve commercially significant sales, imported ingredients need to be incorporated into local dishes appealing to local tastes.

For example, U.S. beef (when it had legal access to the China market) achieved its greatest success as an ingredient in traditional Hangzhou-style dishes. Local distributors recognize products that are relatively new to the market as having great potential. Furthermore, there is significant promise in the future of prepared foods. Rising income levels and two-income families create a demand for quick gastronomical solutions. Various ready-to-eat or heat-and-eat meal timesavers are already popular. Prepared foods are also likely to gain appeal as space-savers in cramped urban apartments.

Hangzhou: Best Product Prospects		
Product	Market	Notes
Beef	retail and restaurant	Imports of US beef are currently suspended; however, retail contacts indicate that it was one of their top-selling products prior to the ban. Due to extraordinary popularity, dishes prepared with US beef made their way onto menus at virtually every high-end restaurant in Hangzhou. Presently, high quality beef is imported from Australia.
Apples	retail	Popular as a prestige or gift item, American varieties are increasingly known for their high quality and appearance.
Poultry	retail and restaurant	Poultry is a central element in Hangzhou cuisine, found in such dishes as <i>Beggar's Chicken</i> .
Potato products	retail and restaurant	Although already widely used in US-style fast food restaurants and hotels, potato products are now increasingly popular in local restaurants. The most successful have been frozen pre-processed varieties such as potato balls with butter inside that simply require frying. Other potentially successful varieties are more unique, such as curly fries.
Salmon	retail and restaurant	Enjoys growing popularity. Originally, the demand was met with Alaskan and Norwegian salmon. However, local distributors remark that the increase in quantity and



		improvement in quality of domestically-raised fish weaken the demand for imports.
Codfish	retail and restaurant	Gained popularity in just the past five years. Currently two major varieties are on the market: Chilean silver codfish and Alaskan black codfish.
Frozen fruit, jams and preserves	retail and restaurant	Local distributors note blueberries to be particularly appealing. There is a constant demand from high-end hotels for jams and preserves. A significant amount of fruit, jam and preserves are currently imported from Australia.
Sweet corn	restaurant	U.S.-style fast food restaurants import a notable amount of corn on the cob.
Dairy (cheese and butter)	retail and restaurant	Local F & B managers see a growing demand for these products, though considerable competition exists from sources such as Australia and Italy.
Wine	retail and restaurant	Retailers indicate strong potential.
Baking ingredients and bread bases	retail and restaurant	Demand is set to increase, particularly in niche markets such as 5-star hotels, which are expected to double in number within the next two years.
Dried fruit and nuts	retail, restaurant and food processing	U.S. dried fruit and nuts are common items found in Shanghai's retail sector and already appear in Hangzhou.

### Join Us!

ATO is constantly planning and organizing market development activities in Hangzhou and nearby cities in the Yangtze River Delta region. In addition to ATO-organized activities, Hangzhou has a regular schedule of locally arranged events. Events organized by the local government include:

- West Lake Exposition: October 20<sup>th</sup>-November 5<sup>th</sup>, 2007. The West Lake Expo is an annual two-week exhibition. This year's featured events include a food festival and chef contest. In addition, there will be an international tourism and leisure commodities show, two furniture shows, an international silk fair and a building and decoration materials fair.
- Hangzhou hosted the 2006 World Leisure Expo, an ambitious 6-month event taking place between April and October 2006. It consisted of numerous events revolving around relaxation and leisure, including a grandiose worldwide city exhibitions hall.
- Hangzhou is the host of an international tea trade fair in the spring.

For more information on upcoming activities, please contact us directly.

U.S. Agricultural Trade Office, Shanghai  
Shanghai Center, Suite 331  
1376 Nanjing West Road  
Shanghai 200040, China  
Phone: (86-21) 6279-8622  
Fax: (86-21) 6279-8336  
E-mail: [atoshanghai@fas.usda.gov](mailto:atoshanghai@fas.usda.gov)